

The Local Choice

The Local Choice

Health Benefits Program



A n n u a l R e p o r t

July 1, 1999 through June 30, 2000

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Message From The Director

The Local Choice Health Benefits Program is entering its second decade stronger than ever. We continue to exhibit stability in enrollment and premiums while providing exceptional value to 210 Virginia counties, cities, towns, political subdivisions, and school systems.

Our health plan procurement in fiscal year 2000 resulted in a greater choice of health care companies for our groups and more health care options for their employees. Managing costs and premiums remains a major objective of the program. We pledge to continue developing strategies to control the increasing cost of health care for you and your employees.

As we strive to improve our programs, The Local Choice program replicates benefits provided to the Commonwealth of Virginia's state government employees whenever possible. Our staff has expanded to serve your needs better than ever before.

We are confident that no one is better qualified to fulfill the unique healthcare needs of local government than The Local Choice Health Benefits Program.

As we celebrate 10 years of progress together, we sincerely thank you for your sustained commitment to and support of The Local Choice program. Your participation is vital for the continued growth of the program in an increasingly competitive health care environment.



Anthony C. Graziano
*Director, State and Local
Health Benefits Programs*



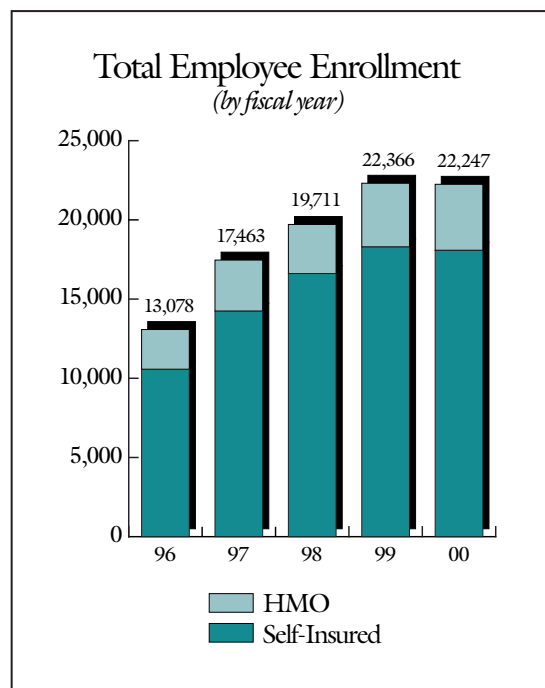
Enrollment Results

The Local Choice program continues to grow. Enrollment increased from 208 to 213 member groups, a growth of 2%. While the majority of groups selected Key Advantage with Expanded Benefits, an increasing number elected one of the Cost Alliance plans as an option for their employees. Growth in the two pools was led by the 50-299 pool with an increase of over 21% (12 groups) followed by the 1-49 pool with an increase of 5% (5 groups). The number of the 300+ self-insured groups did not change.

Low administrative costs, positive cash reserves, and value added benefits allow The Local Choice to compete effectively in this dynamic market. The program's strong presence in the marketplace provides financial stability through competitive rates, quality benefit plans, and superior customer service.

The charts on the next page show which plans are being offered by member groups, and enrollment concentration by plan.

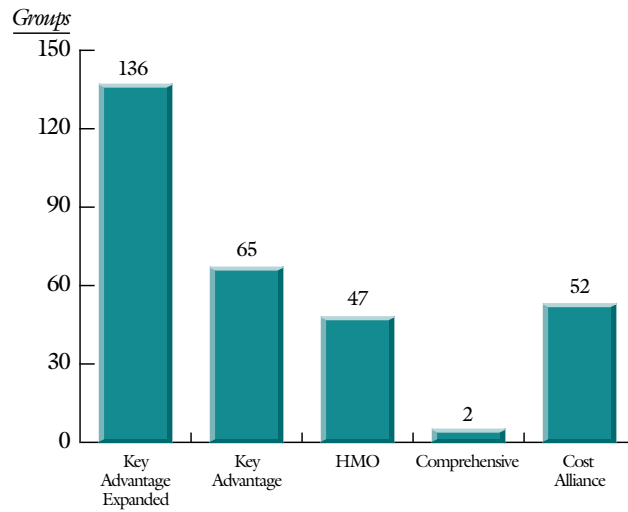
Employee enrollment, including the Medicare products, remained relatively constant. The chart below shows total enrollment over the past five years.



Enrollment By Benefit Plan

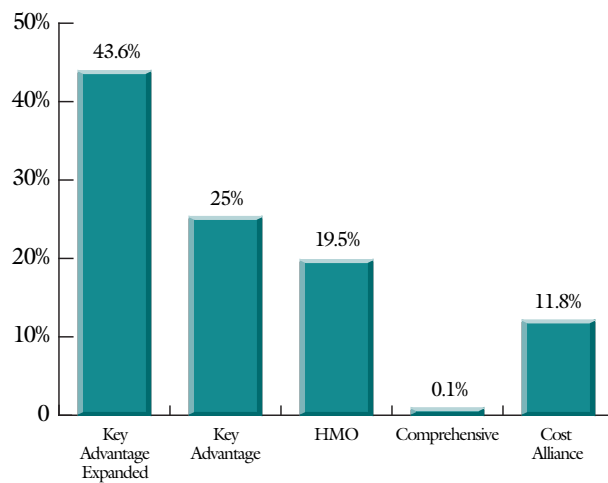
Benefit Plan

Benefit Plans Offered By Member Groups



Note: Some groups offer more than one benefit plan.

Enrollees By Benefit Plan



Utilization Results

Fiscal year 2000 saw Local Choice health care expenses increase to \$65.5 million, a 6% increase over fiscal year 1999. This is due to increased utilization. Costs increased in several treatment settings led by outpatient prescription drugs and hospital inpatient services. The average number of covered persons (employees plus covered dependents) declined by 1% to 30,152.

The cost per covered person is a good indicator of the true year-to-year shift in program expense. The cost per person for all treatment settings increased 6% to \$2,173.

Inpatient hospital expenses accounted for 26% of this year's expense, comparable to the previous period. The admission rate declined 1% but the length of stay increased 2%, indicating increased severity of illness. The cost per admission increased by 8%. The cost per covered person in this category also increased by 6%.

Inpatient physician expenses accounted for 6% of this year's expense, a 10% decrease from the same period in 1999. Consistent with longer length of stay, the cost per covered person increased 6%.

Outpatient hospital expenses accounted for 20% of this year's expense, a 2% decrease over the same period last year. The number of covered persons using this treatment setting decreased by 8%. The cost per covered person declined 2% for outpatient hospital services.

Outpatient physician expenses accounted for 23% of total expenses, a 4% increase over the same period last year. This is a direct impact of the utilization. The cost per covered person showed a 4% increase from the previous year.

Outpatient prescription drugs increased on a cost per covered person basis by 19%. Overall, prescription drug claims cost increased 20%, with over 323,000 claims processed. Fully 86% of these claims were for maintenance drugs prescribed for chronic disorders. Less than 2% of these claims were purchased through the Mail Service program.

Outpatient dental costs increased by 3% due primarily to program growth. The cost per covered person increased 4% over the previous year. The cost per covered service increased 6%.

The charts that follow show claims expense, utilization by place of treatment and an analysis of cost per covered person.

Self-Insured Statewide Self-Insured Statewide Products (Non-HMO) Products Non-HMO

Total Claims Expense – All Groups Combined

<i>Site Of Care</i>	<i>July 1998 to June 1999</i>	<i>July 1999 to June 2000</i>	<i>% Change</i>
Hospital Inpatient	\$15,984,709	\$16,968,921	6%
Hospital Outpatient	\$13,145,406	\$12,865,563	-2%
Physician Inpatient	\$3,692,552	\$3,640,653	-1%
Physician Outpatient	\$14,269,437	\$14,817,595	4%
Dental	\$3,772,224	\$3,902,596	3%
Physician Drug	\$413,905	\$591,454	43%
Pharmacy Drug	\$10,753,635	\$12,737,928	18%
Total	\$62,031,868	\$65,524,710	6%
Expense Per Employee	\$3,647	\$3,866	6%
Expense Per Covered Person*	\$2,043	\$2,173	6%
Average Number Of Employees	17,008	16,951	0%
Average Number Of Covered Persons*	30,373	30,152	-1%

* Covered persons=employee plus covered dependents

Claims Expense

Claims Expense By Pool

By Pool

Total Claims Expense For The 1-49 Pool

This year the cost for medical, prescription drug and dental benefits increased by 9% for employees and by 12% for covered persons. However, overall expenses of \$8.9 million, an increase of 12%, were due to the increase in the number of covered persons with access to benefits. The chart below provides key cost and utilization summaries for this market segment.

<i>Site Of Care</i>	<i>July 1998 to June 1999</i>	<i>July 1999 to June 2000</i>	<i>% Change</i>
Hospital Inpatient	\$2,065,278	\$2,336,036	13%
Hospital Outpatient	\$1,654,392	\$1,832,364	11%
Physician Inpatient	\$428,949	\$482,001	12%
Physician Outpatient	\$1,788,876	\$2,018,794	13%
Dental	\$496,624	\$535,036	8%
Physician Drug	\$29,489	\$72,218	145%
Pharmacy Drug	\$1,360,221	\$1,652,852	22%
Total	\$7,823,829	\$8,900,000	12%
Expense Per Employee	\$3,383	\$3,684	9%
Expense Per Covered Person*	\$1,833	\$2,046	12%
Average Number Of Employees	2,313	2,424	5%
Average Number Of Covered Persons*	4,269	4,364	2%

*Covered persons=employee plus covered dependents

Claims Expense

Claims Expense By Pool

By Pool

Total Claims Expense For The 50-299 Pool

Annual expenses for this pool were almost \$32 million, a 4% increase over the previous year. Participation remained stable and increases are attributable to higher prescription drug costs.

<i>Site Of Care</i>	<i>July 1998 to June 1999</i>	<i>July 1999 to June 2000</i>	<i>% Change</i>
Hospital Inpatient	\$7,554,052	\$7,552,257	0%
Hospital Outpatient	\$7,102,682	\$6,828,743	-4%
Physician Inpatient	\$1,790,285	\$1,759,792	-2%
Physician Outpatient	\$7,040,054	\$7,294,952	4%
Dental	\$1,874,104	\$1,944,438	4%
Physician Drug	\$289,456	\$330,390	14%
Pharmacy Drug	\$5,152,979	\$6,264,726	22%
Total	\$30,803,612	\$31,975,298	4%
Expense Per Employee	\$3,565	\$3,694	4%
Expense Per Covered Person*	\$2,025	\$2,106	4%
Average Number Of Employees	8,640	8,656	0%
Average Number Of Covered Persons*	15,210	15,180	0%

* Covered persons=employee plus covered dependents

Key Indicators

Key Indicators – All Groups Combined

All Groups Combined

Utilization Indicators By Place Of Treatment

(Excludes Mental Health And Substance Abuse)

<i>Inpatient Hospital</i>	<i>July 1998 to June 1999</i>	<i>July 1999 to June 2000</i>	<i>% Change</i>
Admissions Per 1,000	73.40	72.40	-1%
Days Per 1,000	293.00	293.60	0%
Average Length Of Stay	3.99	4.05	2%
Physician Services Per 1,000	562.00	558.20	-1%
<i>Outpatient Hospital</i>			
Case Rate Per 1,000	1,025.60	940.80	-8%
Physician Services Per 1,000	1,111.20	1,180.50	6%
<i>Doctor's Office</i>			
Physician Services Per 1,000	9,803.7	9,976.80	2%

Expense Indicators By Place Of Treatment

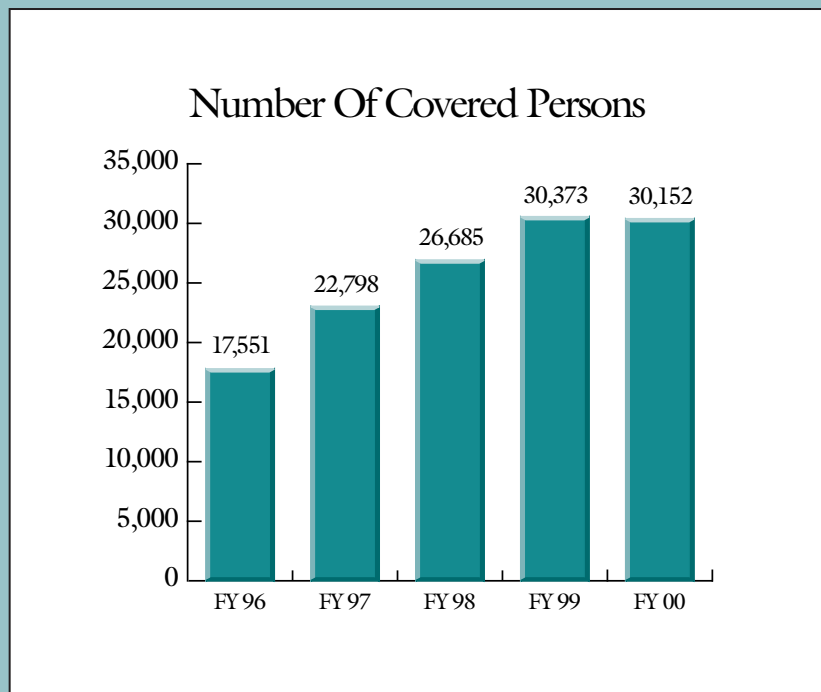
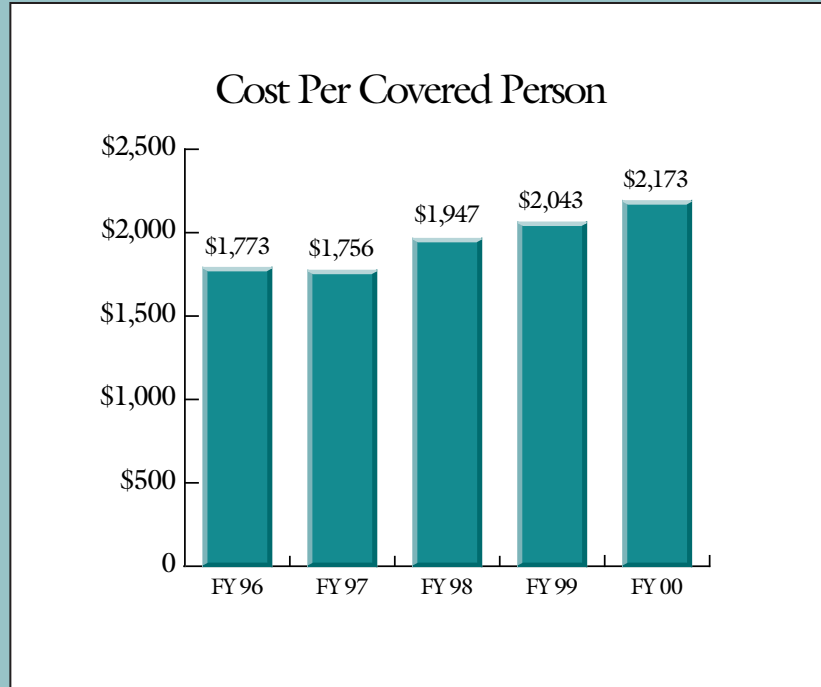
(Excludes Mental Health And Substance Abuse)

<i>Inpatient Hospital Expenses</i>	<i>July 1998 to June 1999</i>	<i>July 1999 to June 2000</i>	<i>% Change</i>
Per Day	\$1,796	\$1,917	7%
Per Admission	\$7,174	\$7,773	8%
Per Physician Service	\$216	\$216	0%
Per Covered Person	\$648	\$684	6%
<i>Outpatient Hospital Expenses</i>			
Per Case	\$422	\$454	8%
Per Physician Service	\$97	\$100	2%
Per Covered Person	\$541	\$544	1%
<i>Doctor's Office Expenses</i>			
Per Physician Service	\$34	\$35	2%
Per Covered Person	\$333	\$345	4%

Individual Analysis

Individual Analysis – All Groups Combined

All Groups Combined



Financial Analysis

Financial Strength

The Local Choice continues to provide a strong financial base for its member groups. During this plan year the program continues to return excess reserves to member groups through its premium stabilization policies. The program also retained nearly \$5 million for future stabilization needs.

Cash Balance (June 30, 2000)	\$2,138,517
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Self-Insured Statewide Products

Annual premiums encompass all income, including interest earned on reserves. Annual expenses include the cost of claims and administration, promotional materials and the CommonHealth program. The analysis reflects the impact of returning excess reserves to member groups in the form of premium credits and a continued migration of enrollees to HMO offerings.

<i>Program Total</i>	<i>1999</i>	<i>2000</i>
Annual Premiums	\$64,419,458	\$89,541,349
Annual Expenses	\$72,038,294	\$93,258,014
Premiums Less Expenses	(\$7,618,836)	(\$3,716,665)
Operating Ratio	111.8%	104.2%

Fully Insured Health Maintenance Organizations (HMOs)

This contract year reflected growth in the number of employers and employees selecting HMO managed care products. The annual premiums collected by the HMOs are shown below.

<i>Annual Premiums</i>	<i>1999</i>	<i>2000</i>
Schools	\$5,573,588	\$6,976,461
Government	\$8,814,632	\$9,897,059
TOTAL	\$14,388,220	\$16,873,520

Value Added Benefits

Working For You

Advantages Inherent To Self-Insured Plans

*T*hrough sharing of catastrophic claims, member groups obtain important financial protection. Spreading the cost of claims in excess of \$50,000 over the program statewide helps stabilize premiums and eases the financial burden of large catastrophic claims on any particular member group. The groups also benefit from low administrative costs that could not be achieved by most localities independently.

The size of an individual member group is no longer relevant. The Local Choice is in a strong negotiating position because administrative costs are based on the total number of groups participating in the program and are combined with the Commonwealth of Virginia's employee group. Additionally, profit and risk cost normally associated with health care coverage is absent from the statewide Local Choice products.

- *Lower administrative costs.* The total number of groups participating in The Local Choice program determines administrative costs. Lower administrative costs are achieved because the program is able to take advantage of the Commonwealth's substantial purchasing power. Significant discounts are achieved through the program's large provider network.

- *Financial protection through shared claims experience.* All groups, regardless of size, share the benefit of pooling mental health, prescription drug, and dental costs over the entire Local Choice membership. This has a powerful stabilizing effect on premiums.

- *Performance guarantees.* Health plans offered under The Local Choice must meet minimum performance standards or face the prospect of monetary penalties. Our carriers are held accountable for claims payment accuracy and processing time and other measures of performance.

- *Employee Assistance Program services.* All health plan carriers participating in The Local Choice offer Employee Assistance Programs at no cost to enrollees. Confidential assessments, counseling, consultation and referral programs that address personal and work-related issues are provided. Up to four sessions are included in all health plans for mental health services, alcohol or drug abuse assessment, child or elder care, grief counseling, and legal or financial services.

- *CommonHealth wellness program.* The CommonHealth wellness program continues to add value to the benefits received by Local Choice enrollees. In the 2000 fiscal year, more than 1,900 individuals from 70 groups took part in our health assessment or medical screening process. This figure represents 38% of the eligible population. Participation in Baby Benefits was up 40%. Participation in CommonHealth continues to lower overall claims cost and helps the plan achieve significant savings.

- *Compliance with the Virginia Procurement Act.* The Local Choice program has been procured on your behalf under the Virginia Procurement Act. By joining The Local Choice program, member groups automatically save the time and expense of a separate procurement process.

**For more information about The Local Choice program,
visit us at www.thelocalchoice.state.va.us.
Email: tlc@dhrm.state.va.us**

The Local Choice Health Benefits Program
Commonwealth of Virginia
Department of Human Resource Management
101 North 14th Street – 13th Floor
Richmond, Virginia 23219

(804) 786-6460

